

CA 20N RU 50 -057 Motor Vehicle Transfers

General

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If you buy a car or other motor vehicle at a private sale, you will probably have to pay retail sales tax when you have ownership of the vehicle transferred. This guide explains when tax is payable and how to pay it.

TAXABLE TRANSFERS

Except in the circumstances listed later in this guide, a vehicle is taxable on what you pay for it. Payment could be cash, a cheque, or a money order. Taking over a loan or other financing arrangement is also payment; tax is calculated on the outstanding amount being taken over. When vehicles are brought into Ontario, the taxable value includes duty, federal sales tax and exchange where applicable.

When goods are exchanged for a vehicle, payment of tax depends on whether the goods are taxable. If they are not taxable, tax is due on the **total value** of the vehicle purchased. If they are taxable, tax is due only on the **difference** between the value of the vehicle and the value of the goods exchanged for it. The person who receives the higher-valued item pays the tax. For instance, when a car valued at \$1,000 is traded for a motorcycle valued at \$800, the buyer of the car pays tax on the \$200 difference. (No tax is due if the vehicle and the taxable goods exchanged for it have the same value.)

The taxable value of a vehicle is not to be reduced for any labour or other services exchanged for the transfer of ownership of a vehicle.

PAYING THE TAX

When you buy a car from a car dealer, you pay retail sales tax at the time of sale. In a private sale the seller is not authorized to collect tax, so you pay it when you transfer the ownership at a motor vehicle office of the Ministry of Transportation and Communications.

Form MV-1 is the tax declaration and receipt for payment. The motor vehicle licence issuer ensures that the form is properly completed and signed by the purchaser and himself.

Your responsibility is to declare the purchase price of the vehicle and certify the accuracy of the price. This declaration may be audited or investigated by the Ministry of Revenue, and a penalty will be imposed for understating the vehicle's value. You will be required to pay whatever tax is due on the amount understated, plus a penalty equal to that amount with a minimum of \$50, plus interest.

Similarly, a penalty will be imposed if you fail to pay sales tax due at the time of transfer. In addition to the tax itself, the penalty will be 25% of the tax plus interest, with a minimum penalty of \$100.

REFUNDS

Refund examples:

- Purchasers of vehicles to transport persons with physical disabilities must pay tax at the time of vehicle registration, but they may have the tax refunded. See Sales Tax Guide 118 or contact a Retail Sales Tax Office.
- If you buy a vehicle licensed in Ontario with the intention of taking it out of the province, you must pay tax when you register it. But if you remove it within 30 days of purchase, for **permanent** use outside the province, you may apply for a refund of tax through the Retail Sales Tax Branch.
- Purchasers of vehicles powered by alternative fuels can obtain sales tax refunds. A refund is limited to \$750 for propane powered vehicles and \$1,000 for vehicles powered by other alternative fuels. **The dollar limits do not apply to buses.**
- Purchasers may obtain a refund of sales tax paid on vehicles that they convert to use alternative fuels if the contract for conversion is made within 30 days of purchase **and** the conversion is completed within 90 days

of purchase. A refund is limited to \$750 for propane powered vehicles and \$1,000 for vehicles powered by other alternative fuels. **These limits do not apply to buses.**

- Persons leasing vehicles powered by alternative fuels, under long term leases, will be entitled to sales tax refunds limited to \$750 on propane powered vehicles and \$1,000 on vehicles powered by any other alternative fuel. **The lessees of buses powered by alternative fuels are not subject to these limits.** For this purpose, a long term lease is for one year or longer. Claimants will be allowed to use one of three options: filing after the maximum amount of tax refundable has been paid; filing at the end of the lease contract; or filing at the end of each expired 12-month period. In any case, claims must be made within three years of paying the tax.

EXEMPTIONS

Retail sales tax does not always apply to the transfer of ownership of a motor vehicle.

Exemptions include:

- (a) transfer of registration for licensing or insurance purposes where there is **no payment** and no change in the actual ownership of the vehicle
- (b) gifts between family members, estate bequests or any other transfer of ownership where no payment of any kind is involved
- (c) exchange of a motor vehicle for another **taxable** motor vehicle or other **taxable** goods of equal value
- (d) motor vehicles brought into Ontario as settler's effects (See Sales Tax Guide 102 for details.)
- (e) transfers to Status Indians living on reserves when the motor vehicle is registered to an address on a reserve and their federal identification card is presented

If you qualify for exemption, **form MV-2** Exemption Declaration must be completed at a motor vehicle office. The reason for the exemption must be checked or stated.

You must certify the information by signing the form. Your declaration may be audited or investigated by the Ministry of Revenue and penalties and interest can be imposed if you claim an exemption to which you are not entitled.

The information in this publication is only a guideline. For more specific information, please consult the Retail Sales Tax Act or contact your local Retail Sales Tax Office listed in the blue pages of your telephone directory.

Pour obtenir cette publication en français, veuillez communiquer avec votre bureau régional de la Taxe de vente au détail.